Eliminating the subminimum wage in Connecticut is good for low-wage workers, their families, and the Connecticut economy

Testimony in support of
An Act Concerning One Fair Wage (SB 1177)
before the Connecticut General Assembly

Ben Zipperer
Economic Policy Institute

March 9, 2023

Senator Kushner, Representative Sanchez, and distinguished members of the Labor & Public Employees Committee. Thank you for allowing me to speak with you today in support of SB 1177, An Act Concerning One Fair Wage.

My name is Ben Zipperer and I am an economist at the Economic Policy Institute (EPI) in Washington, D.C. EPI is a nonprofit, nonpartisan think tank that believes every working person deserves a good job with fair pay, affordable health care, and retirement security. To achieve this goal, EPI conducts research and analysis on the economic status of working America.

My particular expertise is on the minimum wage and low-wage labor markets, and my testimony establishes that the elimination of subminimum wages in Connecticut is sound economic policy.

Eliminating subminimum wages is good for Connecticut's economy

The minimum wage is a crucial policy tool that improves the lives of low-wage workers and narrows gender and racial earnings gaps.[1] The proposed elimination of subminimum wage standards will benefit low-wage workers and their families and is consistent with a growing economy in Connecticut.

There is sometimes much public controversy about the consequences of minimum wages: do minimum wages help low-wage workers? Or do the wage increases cause employers to

---

[1]David Cooper, Elise Gould, and Ben Zipperer, "Low-wage workers are suffering from a decline in the real value of the federal minimum wage", Economic Policy Institute, August 2019. Ellora Dernoncourt and Claire Montialoux, "Minimum Wages and Racial Inequality," *Quarterly Journal of Economics*, 136(1):169-228, February 2021.

hire fewer workers, hurting the people we are trying to help? Fortunately the minimum wage is one of the most well-researched topics in economics, and the resounding conclusion from that research is that minimum wages raise the wages and incomes of low-wage workers with little-to-no downsides. In a review of studies that measured both the wage benefits and potential employment costs, the leading expert on minimum wages Arindrajit Dube at the University of Massachusetts found that "the overall body of evidence suggests a rather muted effect of minimum wages to date on employment."[2]

In particular, there is also research showing how increasing subminimum wages benefits low-wage workers. Analyzing more than two decades of state-level minimum wage changes, Sylvia Allegretto and Carl Nadler found that increases to the tipped minimum wage raised the earnings of workers in full-service restaurants and had statistically insignificant effects on restaurant employment.[3]

A simple examination of recent employment data also demonstrates that states that have eliminated subminimum wages have restaurant sectors just as strong as states with subminimum wages. **Figure A** shows that, in states that have eliminated subminimum wages, on average about 7% of private-sector workers were employed in restaurants and bars in 2022. That share was the same in states that still use lower subminimum wages, like Connecticut. Because these rates of restaurant employment are basically the same, it is simply implausible that subminimum wage policies today can be the major determinant of restaurant employment.

[2]Arindrajit Dube, Impacts of Minimum Wages: Review of the International Evidence, report prepared for Her Majesty's Treasury (UK), November 2019.

[3]Sylvia Allegretto and Carl Nadler, "Tipped Wage Effects on Earnings and Employment in Full-Service Restaurants", *Industrial Relations*, 54(4):622-647, October 2015

Figure A. Subminimum wage policies do not determine total restaurant employment

Shares of private-sector workers in restaurants & bars in 2022, by state minimum wage policy
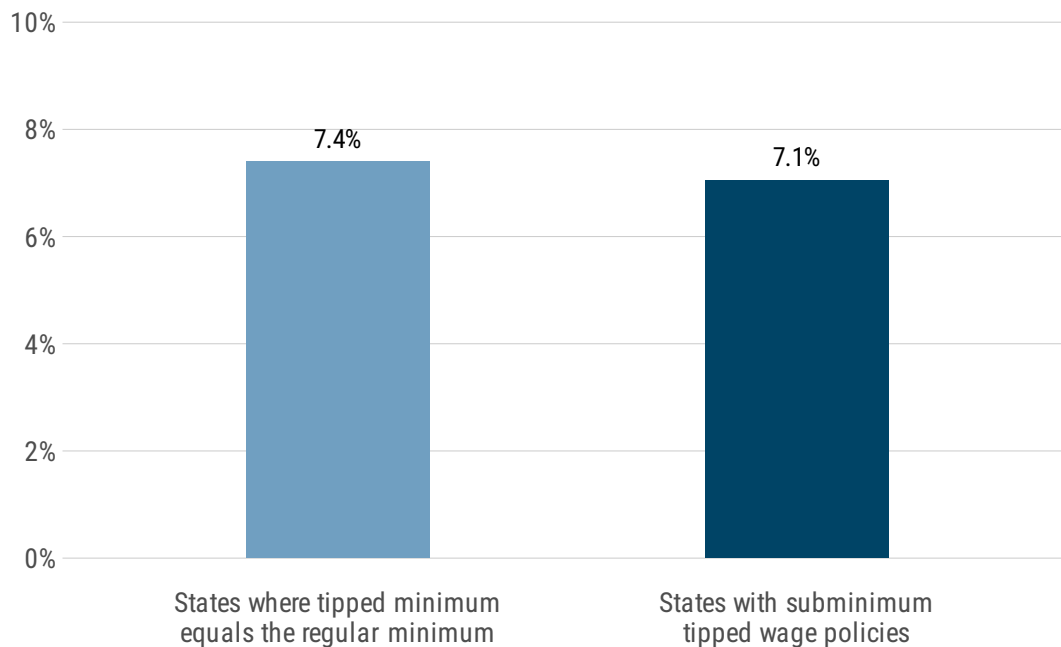
Author's analysis of Current Population Survey basic monthly data. Restaurants and bars are Census industry codes "Restaurants and other food services" and "Drinking places, alcoholic beverages." The six states without a separate minimum for tipped workers are Alaska, California, Minnesota, Montana, Nevada, Oregon, Washington.

Having separate subminimum wages is costly to workers and the state of Connecticut. Different wage standards allow unscrupulous employers to misclassify workers and avoid paying owed wages, shifting the burden to low-wage workers to confront their managers if they feel they have been shorted. Subminimum wage standards are also economically wasteful for the state of Connecticut, forcing the state to investigate claims of wage violations that could be avoided by having a simple, uniform minimum wage applicable to all workers. For example, Sylvia Allegretto and David Cooper cite data from the Department of Labor showing that in a "compliance sweep of nearly 9,000 full-service restaurants by the U.S. Department of Labor's Wage and Hour Division (WHD), 83.8 percent of investigated restaurants had some type of violation" including 1,170 tip credit infractions.[4] Eliminating the subminimum wage will reduce wage theft and benefit both workers and the state of Connecticut.

**Tipped workers are overwhelmingly adult women with high poverty rates**

A common misconception about minimum and subminimum wage workers is that they are often teenagers, and that workers who earn tips typically have high earnings. Both of these claims are false, and they are especially incorrect when examining the experience of workers who earn tips.

---

[4]Sylvia Allegretto and David Cooper, "Twenty-Three Years and Still Waiting for Change", Economic Policy Institute, July 2014.

Figure B shows that tipped workers in Connecticut are mostly adult women. About 88% of Connecticut's tipped workers in 2022 were adults ages 20 and above. Half (52%) of tipped workers in Connecticut were in their prime adult working years, ages 25 through 54. As a result, many jobs held by tipped workers are not the first entry-level jobs of a young person who has never worked before, even though these tipped jobs often pay low wages.

Figure B. Tipped workers in Connecticut are overwhelmingly adult women

Distribution of tipped workers in Connecticut in 2022
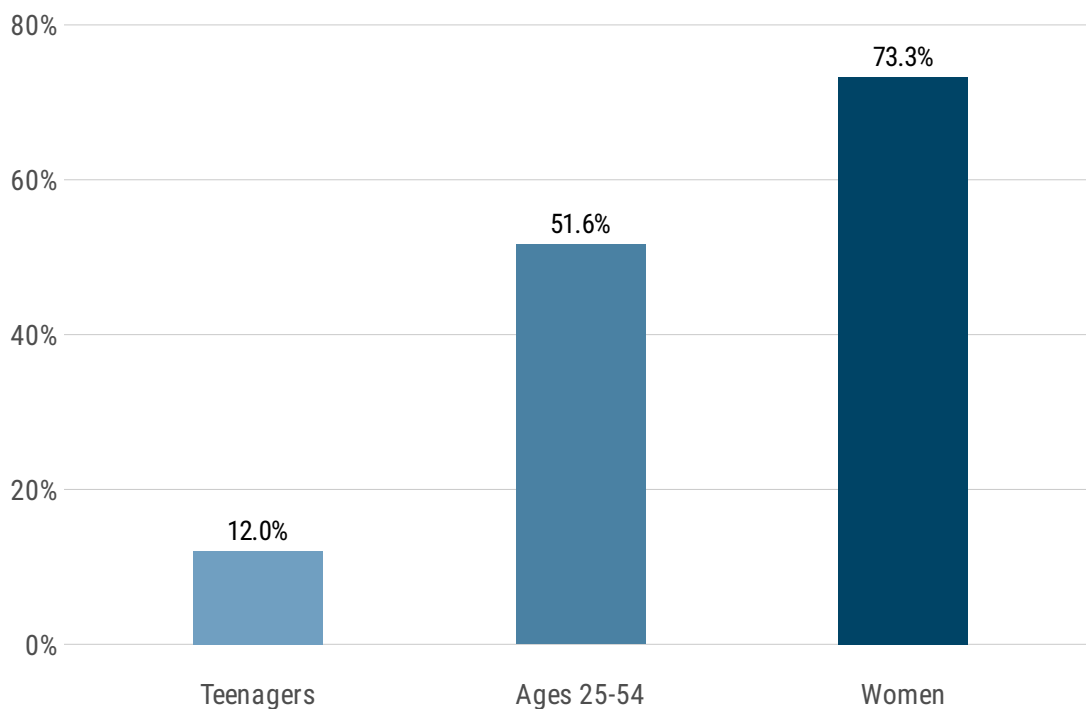
Author's analysis of American Community Survey data. Tipped workers are in occupation and industry combinations likely to be paid tips.

Almost three quarters (73%) of Connecticut's tipped workers were women in 2022. Because women disproportionately hold tipped jobs, eliminating the subminimum wage will raise their pay and reduce gender pay gaps. More generally, academic research shows clearly that minimum wage increases have been an important policy tool for reducing inequality among women.[5]

Another misconception about tipped workers earning the subminimum wage is that they are ultimately paid well, regularly earning large amounts of tips. While this may be true for some tipped workers in high-end restaurants, it does not fit the reality of most workers who earn tips, particularly in Connecticut. **Figure C** shows that even before the pandemic, tipped workers in Connecticut had especially high poverty rates, inclusive of tipped earnings. The overall poverty rate was 6.6% for workers living in families in

[5]David H. Autor, Alan Manning, and Christopher L. Smith, "The Contribution of the Minimum Wage to US Wage Inequality over Three Decades: A Reassessment," *American Economic Journal: Applied Economics*, 8(1): 58-99, January 2016.

Connecticut in 2019. Tipped workers in Connecticut had a poverty rate twice that amount (13.6%). The situation is even worse for waitstaff and bartenders in Connecticut, whose 2019 poverty rate was 15.6%.

Figure C. Tipped workers in Connecticut have high poverty rates

Poverty rates in Connecticut in 2019, by group of workers
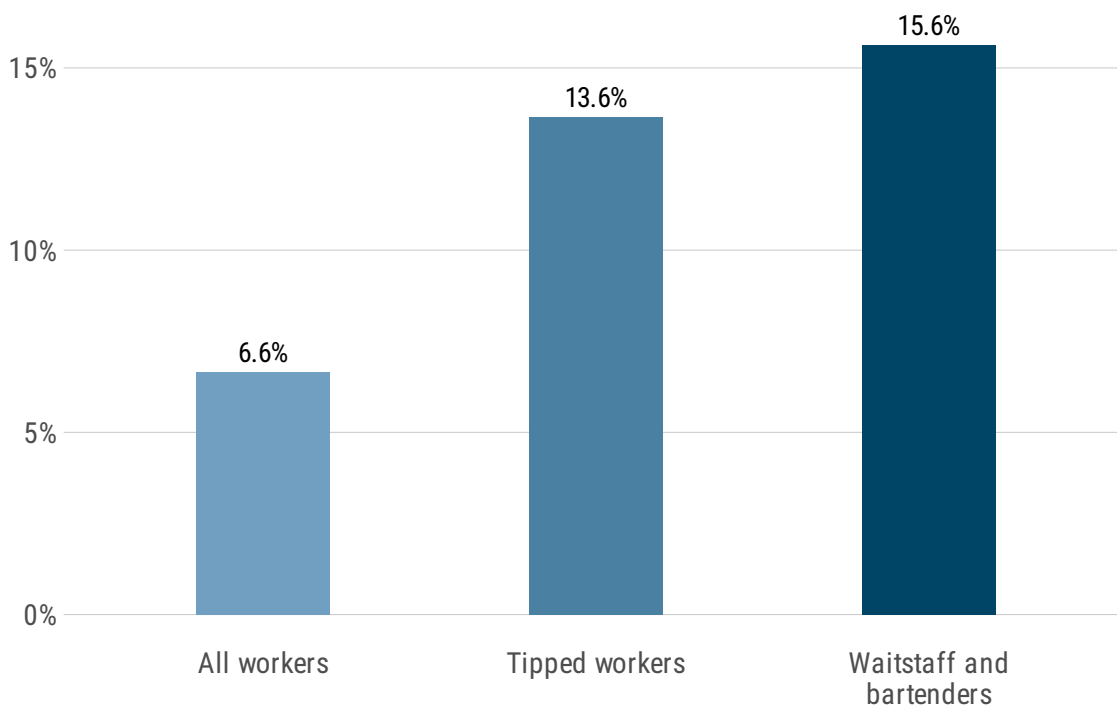
Author's analysis of 2019 American Community Survey data. Tipped workers are in occupation and industry combinations likely to be paid tips. Waitstaff and bartenders are occupation codes 4110 and 4040, respectively.

Because they raise incomes, minimum wage increases have historically reduced poverty rates. Relatedly, research has shown families use less public assistance services after a minimum wage increase.[6] Eliminating the subminimum wage for tipped workers will reduce the economic deprivation faced by tipped workers and also reduce the administrative burdens of social service agencies in Connecticut.

Conclusion

By eliminating subminimum wages, Connecticut has the opportunity to improve the lives of some of the most economically vulnerable workers. The best economic research shows that minimum wage increases have raised incomes with little-to-no downsides. As a result, the Act Concerning One Fair Wage in Connecticut will raise wages, reduce poverty, and

---

[6]Arindrajit Dube, "Minimum Wages and the Distribution of Family Incomes," *American Economic Journal: Applied Economics*, 11(4): 268-304, October 2019. Michael Reich and Rachel West, "The Effects of Minimum Wages on Food Stamp Enrollment and Expenditures", *Industrial Relations*, 54(4):668-694, October 2015.

reduce gender inequality due to the disproportionate number of women working in tipped occupations.